

OPENING STATEMENT OF CONGRESSMAN PAUL E. KANJORSKI
COMMITTEE ON FINANCIAL SERVICES
HEARING ON GOVERNMENT SPONSORED ENTERPRISE REFORM
WEDNESDAY, APRIL 13, 2005

Mr. Chairman, we need to have strong, independent and world-class GSE regulation. Such a regulatory system will promote confidence in the GSEs, protect the continued viability of our capital markets, insure taxpayers against systemic risk, and expand housing opportunities.

To ensure that we have appropriate GSE regulation, I believe that any future legislative reform efforts should also adhere to several key principles. For example, the regulator must have a funding stream separate and apart from the annual appropriations process.

In order to be credible and effective, the regulator must additionally have genuine independence from the political system. Such independence must consist of complete autonomy from the enterprises, include sufficient protection from outside special interests, and provide substantial insulation from political interference.

A strong regulator must further have robust supervisory and enforcement powers. In this regard, many have suggested that we should model GSE safety-and-soundness regulation on that of other financial institutions. I agree with this sensible concept.

In fact, the general goal of our reform debates heretofore has been to make GSE supervision more bank-like. However, some recent reform proposals, such as those aimed at imposing arbitrary portfolio limits and requiring a burdensome approval process before the GSEs can go to market with new innovations, would appear to be more-than bank-like. These proposals therefore cause me considerable concern.

Moreover, we must ensure that we continue to remember why we created these public-private entities as we work to develop regulatory reform legislation. We created GSEs to help make credit available to finance home purchases, because the private market was not effectively meeting credit needs. The GSEs' charters limit business activities to their public missions, and they receive benefits from the government that help them carry out those public missions.

Beyond ensuring that the GSEs can continue to fulfill their missions, we must maintain a public interest in the boards of these public-private entities. In that vein, I have been very concerned that the Administration has failed to appoint independent directors at Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, as it is required to do under the law. Public participation on these boards helps to focus the GSEs on their missions.

Additionally, I am very concerned that the removal of this presidential appointment authority in any legislation, as some have regrettably suggested, would result in a greater probability of privatization in the future. Privatization of the housing GSEs is a very bad idea for financial institutions of this size and of such importance to our economy.

In sum, Mr. Chairman, in developing any enhanced GSE regulatory system, we should perform deliberate surgery. We should abstain from considering radical proposals that would fundamentally change the ways in which the GSEs operate or undermine their charters. Finally, as we implement strong, independent and world-class GSE regulation, we must also ensure that the GSEs continue to achieve their statutory objectives and carry out their public missions.
